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Sent: Tuesday, February 08, 2005 2:45 PM
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Subject: RIN 3245-ZA02

Gentlemen: Attached are my comments with respect to subject rulemaking.

COMMENTS OF GEORGE N. WITTEICH
CONCERNING THE PROPOSED RULEMAKING OF THE UNITED STATES
SMALL BUSINESS ADMINISTRATION WITH RESPECT TO THE ELIGIBILITY
OF VENTURE CAPITAL FINANCED COMPANIES TO PARTICIPATE IN THE
SMALL BUSINESS INNOVATION RESEARCH PROGRAM

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I understand that: the Small Business Administration [SBA] has issued a proposed ruling to allow companies which, together with their affiliates, employ up to 500 persons and are controlled by U.S. individuals to participate in the Small Business Innovation Research [SBIR] program; and, that such proposed ruling specifically intends to permit SBIR participation by subsidiaries of small businesses controlled by U.S. individuals and by companies financed and controlled by venture capitalists [VCs] so long as the VC organization, together with all its affiliates, qualifies as a small business controlled by U.S. individuals. I further understand that, before making its ruling final, the SBA is now considering exempting VC controlled companies from the affiliation rules.

In finalizing its ruling, I urge the SBA to consider the following:

- a) The SBIR program ear-marks just 2.5% of the participating federal agencies' extramural research and development budgets. All organizations are free to compete for the \$80 billion lion's share remaining. Thus, *there is no lack of opportunity for "larger" organizations to receive federal research and development funding for meretricious programs and no need to permit "larger" organizations to participate in the SBIR program.*
- b) The SBIR program was created by Congress to support the more innovative capability of small businesses to create breakthrough technologies to meet important needs. The SBIR concept is based on conclusive studies showing that small organizations, by their very nature, accommodate more unconventional ideas and produce more innovative results than large organizations. *SBA rulemaking should support Congress' intent to support innovative small businesses and not dilute the pool of SBIR participants with larger, less innovative companies.*
- c) After long experience, I can testify that *VCs have no interest in financing the creation of breakthrough technologies.* VCs, even those professing to be "early stage investors," are interested in exploiting technologies after their creation and validation. VCs invest in creating and expanding businesses. VC financed companies are managed to execute a business plan; their resources are focused accordingly and, inevitably, unrelated innovativeness is stifled.

- d) The natural bureaucratic tendency of the federal agencies participating in the SBIR program is to support the development of lower risk evolutionary technologies rather than higher risk breakthrough technologies. They want “success stories.” This risk avoidance tendency, however, is contrary to the national interest – the development of a few breakthrough technologies is better than the evolution of many technologies, particularly since promising evolutionary technologies are more likely to be supported by private funding. *SBA rulemaking should be crafted to counter bureaucratic risk avoidance tendencies.*
- e) Venture capital is often crucial to turning a promising technology into a business. Venture capital is a good thing; however, *once a small business is infused with venture capital, it ceases to be an innovator and becomes an exploiter.* Venture capital can be the next step in creating a business after an SBIR supported technology has been proven. A small business with a promising technology can accept venture capital and dedicate itself to growing a business based on the technology or it can spin out the technology to a separate venture capital funded entity. Often such spin-outs are created well in advance of venture capital or other equity funding.

In conclusion,

I support permitting subsidiaries of qualified small businesses to participate in the SBIR program. Such action will accommodate spin-outs and promote the transition from technology development to business development.

I oppose permitting venture capital funded companies to participate in the SBIR program. Such action would dilute the innovativeness of the pool of participating companies and result in fewer breakthrough technologies.

I strenuously oppose exempting venture capital funded companies from the affiliation rules. Such action would allow large businesses to fund small business “front” companies to participate in the SBIR program, which would be completely contrary to the SBIR concept.